

### **3. BOARD COMMITTEES**

#### **A. Audit & Risk Committee**

##### **Terms of Reference**

(As approved at the Board Meeting held on 17 November 2016)

##### **Membership**

1. The Audit & Risk Committee (“the committee”) is appointed by the board on the recommendation of the Nominations Committee in consultation with the chairman of the committee. All members of the committee shall be independent non-executive directors of the company. The Chairman of the board shall not be a member of the committee.
2. The committee shall consist of not less than three members. A quorum shall be two members. A duly convened meeting of the committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the committee.
3. The chairman of the committee shall be appointed by the board from amongst its members. In the chairman’s absence, the committee may elect another of its members to deputise for the chairman.
4. At least one member of the committee shall hold a professional qualification from one of the accountancy bodies and shall have, to the board’s satisfaction, recent and relevant financial experience.

##### **Attendance at meetings**

5. Only members of the committee shall have the right to attend its meetings, but other persons, including the Chairman of the board, the Chief Executive, the Group Finance Director, other board members, the Group Finance Controller, the Head of Risk and other executives of the company may attend at the invitation of the committee for all or part of any meetings as shall be considered necessary or appropriate by the committee
6. The head of internal audit (or an appointed representative of any firm providing internal audit services) and a representative of the external auditors shall attend committee meetings on a regular basis.
7. At least one meeting per year, or part thereof, will take place with external auditors and (whether at the same meeting or on another occasion) with the head of internal audit or, as the case may be, the representative of the firm providing internal audit services without management present.
8. The Company Secretary shall be secretary of the committee. In the absence of the Company Secretary, the Deputy Company Secretary or some other person nominated by the Company Secretary and acceptable to the Committee shall act as secretary.

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##### **Frequency of meetings**

9. Meetings shall be held not less than four times a year, and where appropriate will coincide with key dates in the company's financial reporting cycle.
10. External auditors or internal auditors may request a meeting with the Committee or its Chairman if they consider that one is necessary.

##### **Authority**

11. The committee is authorised by the board to:
  - a. investigate any activity within its terms of reference;
  - b. seek any information that it requires from any employee of the company and all employees are directed to cooperate with any request made by the committee; and
  - c. obtain outside legal or independent professional advice and such advisors may attend meetings as necessary.

##### **Responsibilities**

12. The principal responsibilities of the committee shall be, in respect of the company and the Group as a whole, to:
  - monitor the integrity of the full year and half-yearly financial statements and any formal announcements relating to the company's financial performance;
  - make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor;
  - review and monitor at least once a year the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
  - develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm;
  - keep under review the adequacy and effectiveness of the company's internal financial controls and internal control and risk management systems;
  - monitor and keep under review the effectiveness of the company's internal audit service;
  - report to the board, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken;

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- review its own performance, constitution and terms of reference at least once a year to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval; and
- consider other topics, as referred to it by the board.

13. In particular, the committee shall

##### **Financial Reporting**

- review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the board, paying particular attention to:
  - critical accounting policies and practices: their appropriateness, any changes in them, and the consistency of their application from year to year and throughout the Group;
  - decisions requiring a major element of judgement and the appropriateness of the estimates and judgements made;
  - the extent to which the financial statements are affected by any significant or unusual transactions in the year, the methods used to account for them where various approaches may be taken and how they are disclosed;
  - the clarity of disclosures and the context in which statements are made; significant adjustments resulting from the audit; compliance with accounting standards and their appropriateness to the Company; compliance with stock exchange and other legal requirements;
  - reviewing the statement in the annual report confirming that the directors have carried out a robust assessment of the principal risks facing the company and how they are being managed or mitigated prior to endorsement by the board;
  - reviewing the company's statement in the annual report on the monitoring and review of internal control and risk management systems prior to endorsement by the board; reviewing the policies and process for identifying, and assessing the appetite for and potential impact of, business risks and the management of those risks by the company;
  - reviewing the use of the going concern assumption in relation to the preparation of the financial statements prior to endorsement by the board of the annual report statement on going concern;
  - advising on the appropriate period for the statement in the annual report that the directors have a reasonable expectation that the company will be able to continue in operation and meet its liabilities as they fall due, and reviewing that statement and any related qualifications or assumptions prior to endorsement by the board;
  - all material information presented with the financial statements, such as the strategic report, the directors' report and the corporate governance statement (insofar as it relates to the audit and risk management; other information remains the responsibility of the relevant committee or director(s));

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- whether the company's reports (including all price-sensitive public reports and reports to regulators that are within the remit of the audit committee) are fair, balanced and understandable and whether the annual report provides the information necessary for shareholders to assess the company's performance, business model and strategy;
- advising the board if it is not satisfied with any aspect of the company's proposed financial reporting;

#### External Audit

- oversee the process for selecting the external auditor;
- ensure that at least once every 10 years the audit services contract is put out to tender and that tenders are conducted in accordance with all relevant regulatory requirements;
- oversee the relationship with the external auditor, including, but not limited to:
  - approving the remuneration and, terms of engagement of the external auditor;
  - approving the annual audit plan and before each audit commences, the nature and scope of the audit;
  - reviewing the auditor's quality control procedures and steps taken by the auditor to respond to changes in regulatory and other requirements;
  - assessing annually the effectiveness of the external audit process;
  - pre-approving (above any limits previously agreed by the committee or not delegated to the chairman of the committee for approval\*) any fees in respect of non-audit services provided by the external auditor (or by any firm providing internal audit services);

(\* as at 22 March 2012 the committee authorises, without the need for reference to it, spending on non-audit services with the external audit firm up to a level in any one financial year equal to 20% of the audit fee for that year, with any amount in excess of that level requiring the approval of the chairman of the committee)

  - reviewing the external auditor's management letter and management's response;
  - considering management's response to any major external audit recommendations;
  - reviewing, before it is signed by management, any representation letter relating to the company's or the Group's accounts that may be requested by the auditors;

#### Internal Audit

- approve the appointment or dismissal of the head of internal audit or of any firm engaged to provide internal audit services or any firm providing internal audit services;

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- review and approve the internal audit programme and ensure that the internal audit function (whether carried out by permanent employees of the Group or by a professional firm providing internal audit services) is adequately resourced and has appropriate standing within the company;
- consider management's response to any major internal audit recommendations;
- ensure that the internal auditor has direct access to the board and committee chairmen;

#### **Internal Controls and Risk Management**

- monitor the internal control and risk management systems and review annually management's and the internal auditor's reports on the effectiveness of those systems;
- review the adequacy and security of the company's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters, their investigation and follow-up;
- review the company's procedures for detecting fraud;
- review the company's systems and controls for the prevention of bribery and receive reports on any non-compliance.

#### **Reporting procedures**

14. The chairman of the committee shall make a report to the board following meetings of the committee advising it of its deliberations. Where matters such as assessment, confirmations and statements are ultimately the responsibility of the board, the Committee shall make its recommendations to the board for the board's consideration and endorsement. The secretary shall circulate the minutes of meetings of the committee promptly to all members of the committee and, unless it would be inappropriate to do so, copies of minutes shall be circulated to all other members of the board.
15. The chairman of the committee or, as a minimum, another member of the committee, shall attend the board meeting at which the accounts are approved.
16. The committee members shall conduct an annual review and evaluation of their work and these terms of reference and, if appropriate, make recommendations to the board following such review.
17. The committee shall compile a report on how it has carried out its duties and activities during the year for inclusion in the annual report
18. The chairman of the committee shall attend the AGM to answer shareholder questions on the committee's activities and its responsibilities.

#### **Company Secretary**

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19. The Company Secretary should ensure that the committee receives relevant information and papers in a timely manner.

#### **Minutes of meetings**

20. The committee chairman will decide whether it's appropriate to circulate copies of the minutes of committee meetings to all members of the board.
21. Final signed copies of the minutes of the committee should be maintained for the Company's records, in hard and soft copy where possible.